MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BFN 2114 – INVESTMENTS

(All Sections)

27 FEBRUARY 2017
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 6 pages with **TWO** sections.

2. Answer **ALL** questions in **Sections A and B.** The marks for each section are given in the question paper.

3. Please write your answers for Section A and B in the answer booklet.

SECTION A (40 marks): Answer ALL questions. Choose the best answer. Each question carries 2 marks.

Q1. According to the dividend growth model, if a company were to declare that it would never pay dividends, its value would be

a. Based on earnings.
b. Based on expectations regarding.
c. Higher than similar firms since it could reinvest a greater amount in new projects.
d. Zero.
e. Based on the capital asset pricing model.

Q2. Which of the following investors is most likely to become losers when bear market comes?

a. People who adhere to "value investing"
b. People who adhere to " technical analysis"
c. People who adhere to " not invest"
d. People who adhere to "herd investment"
e. All of the above.

Q3. Which of the following factors influence an investor's required rate of return?

a. The economy's real risk-free rate (RFR)
b. The expected rate of inflation (I)
c. A risk premium
d. All of the above
e. None of the above

Q4. The price-earning (P/E) ratio is determined by

a. The required rate of return.
b. The expected dividend payout ratio.
c. The expected growth rate of dividends.
d. Choices a and b
e. All of the above

Q5. A company's dividend last year was RM3.00. Dividends are expected to grow indefinitely at 7% and the required rate of return for the stock is 13%. What is the value of the stock today?

a. RM2.83
b. RM23.08
c. RM24.69
d. RM50.00
e. RM53.50

Continued...

Q6. Which of the following statements regarding fundamental and relative valuation techniques is **true**?

a. Both techniques require an appropriate estimate of the required rate of return and the growth rate.
b. Both techniques require an estimate of future cash flows and a discount rate.
c. Both techniques require an estimate of future cash flows and a growth rate.
d. Both techniques require an estimate of future cash flows, the required rate of return and a growth estimate.
e. All of the above are true.

Q7. In 2014, Sabar Berhad issued a RM50 par value preferred stock that pays a 6 percent annual dividend. Due to changes in the overall economy and in the company's financial condition investors are now requiring a 7 percent return. What price would you be willing to pay for a share of the preferred if you receive your first dividend one year from now?

a. RM42.86
b. RM30.00
c. RM31.54
d. RM33.38
e. RM38.37

Q8. The price-earnings (P/E) ratio for Rose Berhad is 21, and the price-sales (P/S) ratio is 5.2. The industry P/E ratio is 35 and the industry P/S ratio is 7.5. Based on relative valuation, Rose Berhad is

a. undervalued on the basis of relative P/E and relative P/S.
b. overvalued on the basis of relative P/E and undervalued on the basis of relative P/S.
c. undervalued on the basis of relative P/E and overvalued on the basis of relative P/S.
d. overvalued on the basis of relative P/E and relative P/S.
e. none of the above.

Q9. Active and Balanced Berhad's last dividend was RM2.70 and the directors expect to maintain the historic 3 percent annual rate of growth. You plan to purchase the stock today because you feel that the growth rate will increase to 5 percent for the next three years and the stock will then reach RM25 per share. How much should you be willing to pay for the stock if you require a 17 percent return?

a. RM16.97
b. RM22.16
c. RM21.32
d. RM32.63
e. RM23.63

Continued...

Q10. Which of the following economic series is **not** included in the National Bureau of Economic Research (NBER) leading indicator group?

a. Average weekly initial claims for unemployment
b. Index of 500 consumer stock prices
c. Real money supply, M2
d. Index of industrial production
e. All of the above are included in the NBER leading indicator group

Q11. Which of the following economic series is **not** included in the National Bureau of Economic Research (NBER) lagging indicator group?

a. Average duration of unemployment
b. Ratio of manufacturing and trade inventories to sales
c. Number of employees on non-agricultural payrolls
d. Percentage change in the labour cost per unit of output in manufacturing
e. All of the above are included in the NBER lagging indicator group

Q12. In which industrial life cycle stage, do sales correlate highly with an economic series or the economy in general?

a. Pioneering development
b. Rapidly accelerating growth
c. Mature growth
d. Stabilization and market maturity
e. Deceleration of growth and decline

Q13. The dividend payout ratio for the aggregate market is 50 percent, the required rate of return is 16 percent, and the expected growth rate for dividends is 6 percent. Compute the current earnings multiple (P/E).

a. 5
b. 2.81
c. 7.5
d. 4
e. None of the above

Q14. If, for the S&P Industrials Index, the profit margin was 0.30 and the equity turnover ratio was 11 percent, the return on equity (ROE) would be:

a. 0.033%
b. 3.300%
c. 33.00%
d. 36.70%
e. 333.00%

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Q15. "The share price for DreamLight Berhad 5 years ago was RM5, but now only left RM0.30, plus improved performance, it won't go any lower, buy it now!" For such advice, value investors should…

a. Wait until the stock price begin to rise, then, just chase high.
b. Review DreamLight Berhad fundamentals, assess whether it is worth 30 cents for entering into the stock market.
c. Wait and see first, it might fall to 20 cents.
d. Buy faster as people who act fast will win!
e. None of the above.

Q16. Speculative companies are firms where

a. Sales, earnings and cash flows are extremely uncertain and not necessarily related to the economy.
b. Sales, earnings and cash flows are likely to withstand changes caused by the economic environment.
c. Sales, earnings and cash flows are heavily influenced by aggregate business activity.
d. Sales, earnings and cash flows are growing exponentially.
e. None of the above.

Q17. Which of the following statements concerning the competitive environment is true?

a. High fixed costs encourage firms to produce at a low level of capacity, in order to minimize fixed cost per unit produced.
b. Low current prices relative to costs in an industry indicate low barriers to entry.
c. Substantial economies of scale do not give a current industry member an advantage over a new firm.
d. The ability to substitute another product limits the industry's profit potential.
e. Buyers and suppliers do not influence the profitability of an industry.

Q18. During a recession,

a. Financial stocks rise on expectations of increases in loan demand, housing constructions and security offerings.
b. Consumer durable stocks rise on expectations of rising consumer confidence and personal income.
c. Capital goods stocks rise on expectation of increases in business capital spending.
d. Basic materials stocks rise on expectation of rising profit margins.
e. Consumer staple stocks rise on expectations that consumers will continue to spend on necessities.

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Q19. Given Gold Life Berhad's beta of 1.55 and a risk free rate of 8 percent, what is the expected rate of return assuming a 14 percent market return?

a. 12.4%
b. 14.3%
c. 17.3%
d. 20.4%
e. 29.7%

Q20. A growth company may exist for all of the following reasons **except**

a. The company holds patents.
b. The company possess unique distribution or marketing strategies.
c. The company is in a competitive environment.
d. Significant barriers to entry exist.
e. All of the above are reasons a growth company may exist.

SECTION B (60 marks): Answer ALL questions.

Question 1

(a) Although efficient market hypothesis (EMH) is a cornerstone of modern financial theory, the EMH is highly controversial and often disputed. You are required to explain in details what you understand pertaining EMH.

(8 marks)

(b) Discuss how investors form their investment strategies to gain above-average returns based on the three levels of efficiency in the stock market. **(12 marks)**

(Total: 20 marks)

Question 2

(a) Two analysts are overheard discussing technical trading rules. One says, "I have noticed over the last year or so that the market rises to about 11,000 and then falls back. It seems to do that every two to three months. At the bottom, it goes to about 10,000 and then rebounds. It's sort of like watching a roller coaster." The market consistently staying in a band between 10,000 and 11,000 is most likely to be used as evidence against which form of market efficiency? Explain and provide justifications.

(7 marks)

(b) Discuss January and small firm anomalies, two well-known market anomalies in the finance literature.

(6 marks)

Continued...

(c) Describe buy and sell signals either using moving average or relative strength index (RSI) of 14 days in a graph form. Label the graph. **(7 marks)**

(Total: 20 marks)

Question 3

(a) Global Stock Index is a value weighted index with just 2 stocks in the index: ABC stock and XYZ stock. ABC ended 2015 at a price of RM55 and had 1 million shares outstanding. XYZ stock ended 2015 at a price of RM32 and had 4 million shares outstanding. ABC ended 2016 at a price of RM29 (after a 2-for-1 split). XYZ stock closed at RM35 for 2016. You are required to compute the new value of the index. Assuming initial beginning value is 100 for the index. Give any two examples of market value indices in the world stock markets. **(10 marks)**

(b) The risk-free rate of return is 10 percent, and the expected return for the stock market is 16 percent. Sagano Romantic Berhad has a beta of 1.1, and investors expect dividends and earnings to grow at an 8 percent rate per year. The current dividend is RM1.20, and the payout ratio is 50 percent. You are required to compute the price-earnings (P/E) ratio for Sagano Romantic Berhad. **(6 marks)**

(c) Reily Berhad paid an annual dividend of RM1.25 last year. Investors expect the dividends to grow at a rate of 6 percent per year over the foreseeable future. If the required rate of return for this stock is 12 percent, what is its intrinsic value today? **(4 marks)**

(Total: 20 marks)

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